

## Why Did It Go On?



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Lectures in Macroeconomics- Charles W. Upton

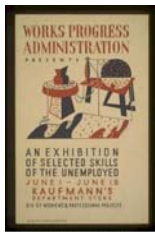
## Phase IV-1933-1940

- Recovery was long in coming and economists still debate why.

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What Went Wrong

## WPA and PWA



Library of Congress, "Works Progress Administration presents an exhibition of talents," *Chicago Tribune* (an official newspaper of the program) 2, <http://www.loc.gov>



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What Went Wrong

## WPA and PWA

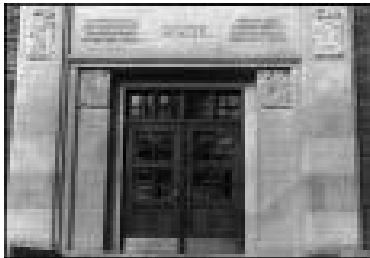
To get work you had to be unemployed. So people employed on government jobs are "unemployed"



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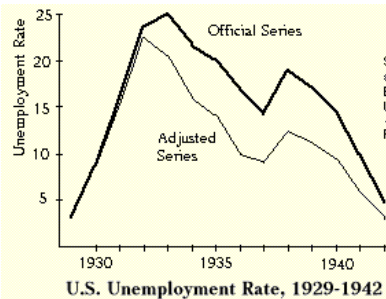
What Went Wrong

## WPA and PWA



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What Went Wrong



Source: Michael R. Darby, "Three-and-a-half Million Employees Have Been Misled, Or an Explanation of Unemployment, 1934-1941," *Journal of Political Economy*, February, 1976, p. 8.

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What Went Wrong

## Supply Shocks

- There were a number of supply shocks during the 1930's.
  - The Dust Bowl
  - The Hawley-Smoot Tariff.
  - Damaged Banking System.

## Dust Bowl



## Dust Bowl



## Hawley Smoot Tariff



## Hawley Smoot Tariff

Fatal Flaw: two can play at this game of "Beggar Thy Neighbor"



## Damaged Banking System



## The New Deal



## The New Deal

Literally hundreds of new government programs came into being after 1933.



## The New Deal

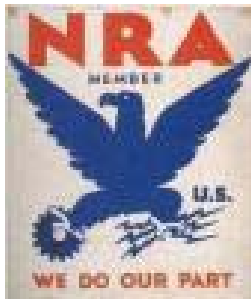
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## The New Deal

Literally hundreds of new government programs came into being after 1933. Some economists conclude that, whatever the wisdom of these programs, an economy takes time to adjust to change. The changes brought about by the New Deal were a supply shock. Whatever their eventual benefits, their immediate impact was to reduce aggregate supply.

## National Recovery Act



## Social Security Act



## The “Roosevelt Depression”

- In 1937-38. At that time, the Federal Reserve System cut the money supply by increasing its reserve requirements, starting another business downturn.
- When speaking of the Depression, many people do not separate the two downturns.

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- We have seen examples of financial collapse in other countries.
  - There were earlier collapses in the United States.
- Stupidity has not disappeared from the human race and gives no evidence of disappearing soon. In short, anything that happened once can happen again.*

## Could it Happen Again?

*However, it is unlikely that this particular mistake will recur. There are many occasions since 1929-33 when the Federal Reserve System has acted wisely, though there are also occasions of great ineptitude as well. The lessons of the 1930's are too well understood.*

## Could it Happen Again?

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*When we make mistakes in the future, we will almost certainly make different ones.*

End

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